

PUBLIC DISCLOSURE

April 3, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Prime Alliance Bank
57920**

**1868 South 500 West
Woods Cross, Utah 84087**

**Federal Deposit Insurance Corporation
25 Jesse Street at Ecker Square
San Francisco, CA 94105**

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Prime Alliance Bank** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **April 3, 2006**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

INSTITUTION CRA RATING: This institution is rated **Satisfactory**.

Prime Alliance Bank's (PAB) overall initial CRA performance evaluation depicts a satisfactory practice of providing for the credit needs of its designated assessment area in a manner consistent with its product lines, resources, and capabilities. The overall rating considered the bank's primary product of commercial residential construction and land development loans extended during 2005. This analysis determined:

- The bank's use of its deposit products to fund loans within its assessment area is satisfactory and consistent with the bank's business plan, market demand, and growth.
- A majority of loans by number and dollar volume are made within the bank's assessment area.
- The bank's lending patterns of commercial loans to small businesses of differing sizes, is well distributed with 45 percent extended to business with annual revenues under \$250,000, and 77 percent extended to businesses under \$1 million.
- The bank's geographic lending distribution patterns of sampled loans is reasonable given its business focus of providing speculative financing to construct mid to upper-end homes originated through brokers.
- The bank and an affiliate have provided qualified community development funding for projects that have helped construct affordable housing, and that have revitalized low- or moderate-income geographies.

Substantive violations with regard to the provisions of antidiscrimination legislation were identified; however, these violations did not adversely impact the CRA rating of this institution.

DESCRIPTION OF INSTITUTION

Prime Alliance Bank (PAB) is a state-chartered, full-service commercial bank headquartered in Woods Cross, Utah. PAB's single office opened for business on December 6, 2004, and is located in Davis County, but on the border of Salt Lake and Davis counties. Initially, the bank's business plan called for limited growth (approximately \$30 million the first year) to be focused in commercial, construction loans, and equipment lending. Soon after opening, however, the bank grew to over \$200 million with loans almost exclusively concentrated in speculative construction and land development lending at 80 percent of total loans. The bank extends these loans to small developers and LLCs that are referred to the bank through various broker relationships. The bank also offers some consumer loan products, primarily on an accommodation basis to its commercial customers. While the bank offers all types of consumer related deposit products, funding thus far has primarily originated from brokered deposits, at 89 percent of total deposits.

As of December 31, 2005, the bank reported total assets of \$213,877,000, total deposits of \$194,777,000 million, and total equity capital of \$18 million. As detailed below, the loan portfolio totals \$169,975,000 million and consists primarily of loans secured by real estate. Construction land development comprised the majority of loans volume at 80 percent of total loans.

| Composition of Loan Portfolio as of December 31, 2005 | | |
|---|----------------------|----------------------------|
| Loan Type | Dollar Amount (000s) | Percent of Total Loans (%) |
| Construction and Land Development | 135,750 | 80% |
| 1-4 Family Residential | 1,286 | 1% |
| Commercial Real Estate | 1,518 | 1% |
| Total Real Estate Loans | 138,554 | 82% |
| Commercial/Industrial | 16,259 | 10% |
| Leases | 14,431 | 8% |
| Consumer | 484 | nom |
| Other Loans | 247 | nom |
| Total Loans | 169,975 | 100% |

Source: 12/31/2005 Report of Condition

Note: The bank has placed a temporary moratorium on all new lending until further notice due to the rapid loan growth that exceeded the bank's business plan. Existing loans are still being serviced and funded.

DESCRIPTION OF THE ASSESSMENT AREA

SALT LAKE AND DAVIS COUNTIES

PAB has designated its assessment area to be the contiguous Utah counties of Salt Lake and Davis Counties. This area is appropriate as the bank is situated on the border of both of these counties, and a majority of the bank's lending is contained in these counties. Salt Lake County is part a part of MSA #41620 and Davis County is part of MSA #36260. The following table shows the combined demographic characteristics of both counties. The assessment area meets regulatory requirements.

| SALT LAKE AND DAVIS COUNTY COMBINED DEMOGRAPHICS | | | | | |
|--|---------------------------|---------------|---|--------------------|-----------------|
| Demographic Characteristics | # | Low % of # | Moderate % of # | Middle % of # | Upper % of # |
| Geographies (Census Tracts/BNAs) | 242 | 2% | 20% | 48% | 30% |
| Population by Geography | 1,137,381 | 1% | 21% | 50% | 28% |
| Owner-Occupied Housing by Geography | 258,935 | nom | 15% | 53% | 32% |
| Business by Geography | 122,953 | 7% | 21% | 43% | 29% |
| Family Distribution by Tract Income Level | 275,387 | 1% | 19% | 51% | 29% |
| 2005 HUD Adjusted MFI for Salt Lake Co. 2005 HUD Adjusted MFI for Davis Co. Households Below Poverty Level | 61,550 61,400 7.58% | | Median Housing Value - SL Median Housing Value - Davis | 167,739 164,963 | |

Source: 2000 US Census and 2005 HUD updated MFI

According to the 2000 Census data and the data contained in the table above, the majority of assessment area census tracts are designated as middle- and upper-income at 78 percent of total tracts, and a majority of the population resides within these tracts. Only 22 percent of the assessment area's population and 20 percent of families reside in low- and moderate-income census tracts. Approximately 35 percent of the families are considered low- and moderate-income. About 7.5 percent of the households are below the poverty level.

According to information obtained from June 2005 Dun and Bradstreet data, over 122 thousand businesses are located in the assessment area. Small businesses (businesses with gross annual revenues of \$1 million and less) accounted for approximately 59 percent of the assessment area's total number of businesses. As shown above, the majority of businesses operating in the assessment area are located in middle- and upper-income geographies.

According to June 2005 Dun and Bradstreet data, 36 percent of the assessment area's businesses are service industries. Retail trade comprises 11 percent; followed by finance, real estate, and insurance at 10 percent; and construction at 7 percent. Six other industry categories comprise the remaining 36 percent. Major employers in the MSA include the State of Utah; University of Utah; Granite, Jordan and Salt Lake City School Districts; Delta Airlines; Salt Lake County; NOVUS Services; Intermountain Health Care; LDS Hospital; Salt Lake City Parks; and the U.S. Post Office.

Economic Conditions

Utah job growth is strong, ranking fourth nationwide in third quarter 2005. However, wage growth is increasing only modestly. Recent job growth was led by the business services and construction sectors, where reported annual wages are near the state average of \$32,100. Forecasts indicate that continued job gains in the higher-paying natural resources and information sectors could boost the state average wage.

Utah had the seventh fastest 2004 population growth nationwide and has ranked in the top ten for population growth for the last 14 years. Over this time, the growing Salt Lake County population has been putting increasing pressure on the existing housing market. As a result, home prices have been escalating. This is reducing access to home purchase by low- and moderate-income families. Home prices continue to increase in Utah. Year-over-year home price appreciation increased from 9.5 percent in second quarter 2005 to 11.4 percent in third quarter 2005. Although still lagging the national rate of 12 percent, price gains for Utah placed it 22nd among the states, up from last place in 2003. The strongest residential sales activity is occurring in Salt Lake County where condominium sales were up 36 percent from year-ago levels.

In large part due to constrained supply of multi-family residential units, apartment vacancy levels are declining and rents are increasing. The total number of multi-family units in the planning and bidding phases is 6.5 percent of inventory, the eighth highest in the country. However, available units continue to decline in proportion to those seeking rental housing. This “landlord’s market” pushes the cost of housing out of reach for many low-income renters. According to 2000 Census data, 38 percent of households in Salt Lake County pay in excess of 30 percent of their income toward rent. The source of this information was the FDIC Division of Insurance and Research’s Regional Economic Conditions reports.

Overview of Salt Lake County Demographics

Of the bank’s two county assessment area, Salt Lake County is much larger and contains the bulk of total assessment area tracts, population, businesses, and new housing growth opportunities. The following table shows Salt Lake County key demographics:

| SALT LAKE COUNTY DEMOGRAPHICS | | | | | |
|---|---------|---------------|--------------------|------------------|-----------------|
| Demographic Characteristics | # | Low % of # | Moderate % of # | Middle % of # | Upper % of # |
| Geographies (Census Tracts/BNAs) | 193 | 2% | 22% | 47% | 29% |
| Population by Geography | 898,387 | 1% | 23% | 49% | 27% |
| Owner-Occupied Housing by Geography | 203,690 | nom | 17% | 52% | 31% |
| Business by Geography | 101,614 | 9% | 23% | 40% | 28% |
| Family Distribution by Tract Income Level | 215,864 | nom | 22% | 50% | 28% |

According to the Salt Lake County Economic Development Demographics and Economics, Salt Lake county is the most heavily populated with a 2000 population of 898,397. This county contains 38 percent of the state's population and offers 47 percent of the total employment for the state. Total employment for the county was approximately 482,260 during 2002 with a corresponding unemployment rate of 6.3 percent. There are 16 incorporated cities in the county ranging in size from nearly 182 thousand people to less than 400. According to data retrieved from the FDIC's RECON data website, total unemployment in the Salt Lake City area has grown at an average annual rate of 0.7 percent, while the nation's employment rate has grown at an average of 0.3 percent.

The availability of affordable housing in the county remains an issue. The supply of suitable single-family homes that sell for less than \$100 thousand is almost nonexistent, with the average home selling for \$145,600 in Salt Lake City in 2000. Rental rates for a one-bedroom averaged \$400 to \$550 per month, while two-bedroom apartments rented for \$600 to \$800 per month. As reported in the Salt Lake County's 1998 Moderate-Income Housing Plan, approximately 78 thousand households in the county now pay or may soon pay over 30 percent of their income for housing.

Overview of Davis County Demographics

Davis County has the smallest land mass of any county in Utah at 268 square miles, however it is the third most populated. Many commercial and industrial companies are located in Davis County including numerous nationally-known manufacturers. The Freeport Center (created during World War II) is the largest distribution center in the United States. Warehouses provide over nine million square feet of covered storage with an additional five million square feet of open storage space. Davis County is also home to Hill Air Force Base. The Base is a vital, economic component of the community.

| DAVIS COUNTY DEMOGRAPHICS | | | | | |
|---|---------|---------------|--------------------|------------------|-----------------|
| Demographic Characteristics | # | Low % of # | Moderate % of # | Middle % of # | Upper % of # |
| Geographies (Census Tracts/BNAs) | 49 | 0% | 12% | 53% | 35% |
| Population by Geography | 238,994 | 0% | 12% | 54% | 34% |
| Owner-Occupied Housing by Geography | 55,245 | 0% | 8% | 55% | 37% |
| Business by Geography | 21,339 | 0% | 14% | 51% | 35% |
| Family Distribution by Tract Income Level | 59,523 | 0% | 11% | 55% | 34% |

The population growth rate of Davis County, at 3.5 percent exceeds the growth rate of Salt Lake County, at 2.4 percent.

OPPORTUNITIES WITHIN THE BANK'S ASSESSMENT AREA:

Six recent community contacts performed for other CRA evaluations were reviewed. These contacts were made with a variety of organizations to help determine the community development needs and opportunities available in the Utah assessment area. The individuals contacted all indicated a strong ongoing need for affordable housing. The contacts included representatives of a local and a statewide government housing agency, two statewide affordable housing organizations, and local affiliate of a national community services organization. The contacts also identified needs for housing rehabilitation, after school child care, affordable healthcare, drug/alcohol rehabilitation programs, financial literacy training and counseling, business development, and small business financing.

The contacts identified the following community development opportunities available to local financial institutions:

- Investment in affordable housing loan pools;
- Financing of affordable housing projects;
- Provision of grants, loans, and donations for support of affordable housing, small business development, and other community development organization activities;
- Provision of financial expertise and services associated with affordable housing, financial literacy education, after school programs, and small business development, including Board and committee service;
- Investment in micro-enterprise small business and other community development loan pools;
- Participation in the U.S. Small Business Administration's loan programs; and
- Financing of small and start-up businesses.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

To assess the institution's performance with respect to the Community Reinvestment Act (CRA), the five following performance areas were analyzed:

- **The bank's average quarterly loan to deposit ratio**
- **Lending within its assessment area**
- **Lending to businesses of different sizes**
- **Geographic distribution of loans**
- **Qualified Community Development Activities**

LOAN TO DEPOSIT RATIO

This performance factor measures the extent to which the bank utilizes its deposit resources to extend credit. Currently, this factor carries little weight in PAB's CRA analysis due to the fact that nearly 90 percent of deposits are brokered deposits. The reason this community bank relies so heavily on brokered deposits, while still offering a full array of consumer deposits, is due to the excessive growth generated outside of its original business plan.

As the ratios below reflect, soon after opening, loan growth rapidly outpaced organic deposit growth creating very high ratios, and requiring the acquisition of brokered deposits to steadily bring the funding in line with growth. The year end ratio reflects a more balanced ratio of deposits to loans. As the bank moves away from brokered deposits as a primary funding source as intended, this factor will become more relevant.

PAB's ratios over the past 5 quarters since beginning operations in December 2004 are depicted below:

| 12/31/04 | 3/31/05 | 6/30/05 | 9/30/05 | 12/31/05 |
|-----------------|----------------|----------------|----------------|-----------------|
| 320% | 182% | 102% | 94% | 85% |

Average Loan to Deposit Ratio Since Beginning Operations: 157%

Average Loan to Deposit Ratio Last Two Reported Quarters: 90%

SAMPLING CRITERIA FOR REMAINING PERFORMANCE FACTORS

Commercial Loan Sample

The bank's commercial construction/development related loan portfolio was sampled for CRA purposes as it is significantly the largest volume of the bank's business. From December 2004 through February 2006, the bank originated a total of 579 total loans amounting to \$170,328,113, of which commercial construction/development loans represented 436 loans totaling \$136,041,203.

Based on this universe of construction loans a random sample of 44 loans totaling \$25,797,459 was selected. The number of loans used to determine the sample size represents the volume needed to achieve a 95 percent statistical valid sample based on the volume of construction loan originations.

This sample was used to determine the bank's performance with respect to:

- **Lending Within Its Assessment Area**
- **Lending to Businesses of Different Sizes**
- **Geographic Distribution of Loans**

LOANS INSIDE/OUTSIDE THE ASSESSMENT AREA

This performance criteria measures the degree in which a bank lends within its designated assessment area. Using the previously described loan sample, the following table shows the percentage of loans, by number and volume, that the bank extended within its assessment area. As the table shows, the bank extended a majority of loans by number and volume within its assessment area for the analysis period.

| Distribution of Loans Inside and Outside of the Bank's Assessment Area | | | | | | | | | | |
|--|-----------------|-----|---------|-----|-------|-------------------------|-----|---------|-----|----------|
| Loan Type | Number of Loans | | | | | Dollars in Loans (000s) | | | | |
| | Inside | | Outside | | Total | Inside | | Outside | | Total |
| | # | % | # | % | | \$ | % | \$ | % | |
| Construction/Land Dev | 31 | 70% | 13 | 30% | 44 | 18,165 | 70% | 7,632 | 30% | \$25,797 |

Source: Bank Records

December 2005 through February 2006

- 70% of sampled loans by number were located within the bank's assessment area
- 70% of sampled loans by dollar volume were located in assessment area

The analysis of the remaining performance factors only consider loans made within the bank's assessment area.

LENDING TO BUSINESS OF DIFFERENT SIZES

Small business loans are defined for CRA purposes as those loans made to businesses, including farms, with annual gross revenues of \$1 million or less. To determine the bank's commercial loan revenue distribution, the sample of loans made **within** the bank's assessment area was analyzed.

- This sample numbered 31 loans at \$18,164,959, representing 13 percent of all commercial loans by dollar amount originated during this time period.

The following table reflects a well-distributed loan penetration to businesses of different sizes, with a majority of loans by number made to small businesses with annual revenues under \$250,000, and a sizeable majority of loans by number and dollar made to small businesses under \$1 million.

| Construction/Development Loan Revenue Distribution | | | | |
|--|-----------------|-------------------|--------------------|------------------------|
| Annual Business Revenues | Number of Loans | Percent by Number | \$ Amount of Loans | Percent by \$ of Loans |
| \$0 - \$250,000 | 14 | 45% | 7,196,568 | 40% |
| \$250,001 - \$500,000 | 6 | 19% | 3,641,513 | 20% |
| \$500,001 - \$1,000,000 | 4 | 13% | 1,913,750 | 11% |
| Small Business Totals | 24 | 77% | 6,707,761 | 71% |
| Over \$1,000,000 | 7 | 23% | 5,413,128 | 29% |

The table shows that approximately 77 percent of the PAB's construction loans by number and 71 percent by volume were made to businesses with gross annual revenues of \$1 million or less. This performance compares favorably to the 59 percent of all businesses in the assessment area that reported revenues under \$1 million.

LENDING TO BUSINESSES IN DIFFERENT GEOGRAPHIES

This factor measures the bank's geographic distribution patterns of the bank's construction/land development lending throughout its assessment area, based on the previously identified sample. Using the sample, the bank's lending patterns were compared against the assessment area distribution of census tracts, population, small businesses, and owner occupied housing.

Note: The bank's primary focus is the underwriting of speculative residential construction loans to commercial contractors originated through brokers therefore, the loans are considered commercial in nature. However, because the location of the underlying residential homes are more of a meaningful indicator of geographic distribution patterns of the assessment area than are the locations of the various contractors/investors (some of whom are located out of state), these underlying properties were used to determine the bank's geographic lending patterns.

The following table compares the bank's lending patterns of its commercial lending derived via the previously described loan sample, against certain applicable assessment area characteristics.

| Distribution of Commercial Residential Construction Loans by Assessment Area Census Tracts | | | | | | | | |
|---|--------------------------------|----------------------------------|-------------------------------|----------------------------------|--|-----------------------------|------------------------------------|--------------------------------------|
| Census Tract Income Level | Number of Loans | Percent by Number | \$ Amount of Loans | Percent by Dollar | Assessment Area Per 2000 Census | | | |
| | | | | | % Tracts by # | % Tracts by pop. | % Tracts by small bus** | % Tracts by owner housing |
| Low | 0 | 0% | 0 | 0% | 2% | 1% | 0% | nom |
| Moderate | 0 | 0% | 0 | 0% | 20% | 21% | 6% | 15% |
| Middle | 15 | 48% | 7,812,459 | 43% | 48% | 50% | 79% | 53% |
| Upper | 16 | 52% | 10,352,500 | 57% | 30% | 28% | 15% | 32% |
| Totals | 31 | 100% | 18,164,959 | 100% | 100% | 100% | 100% | 100% |

Sources: *Bank Loans originated between December 6, 2004, and December 31, 2005; **D&B Business Data, June 30, 2005.

The geographic distribution of small business loans reflects a reasonable dispersion throughout the assessment area, given the demographics of the new housing development areas of the assessment area, rapid growth through brokers, the bank's operational tenure, financial capacity, and office location. The bank's lending within the middle income tracts is well correlated with the assessment area demographics. No unexplained lending gaps were identified.

While the previous table implies that the bank's lending distribution of construction loans does not necessarily correlate with the low and moderate income tract demographics, as no loans were extended in these areas, several factors must be considered:

- The bank's primary business is extending speculative construction financing to developers of mid to upper-end housing projects, originated through broker relationships. The geographic location of the borrower's underlying collateral is not determined by the bank, but rather contractor demand through brokers. The bank has done no active construction loan solicitations or marketing to date.
- The most competitive housing market for new home development is in the south Salt Lake valley area which is primarily middle and upper income tracts. This is particularly the case for the higher-end home construction market. Many of the sampled loans were in this area.
- Only 15 percent of the assessment area owner occupied housing resides in low and moderate-income areas.
- The rapid loan growth has largely occurred through one broker who primarily originates loans in the various new upper-end growth areas of Utah. This relationship has largely skewed the bank's lending patterns by flooding the bank with a concentration of these loans that the bank has now curtailed indefinitely.
- The bank's only office is located in a middle income area of Davis County. Davis County has no low income tracts, and only 14 moderate income tracts which are largely clustered in a low growth area located approximately 20 miles north of the bank. The bank's CRA Officer Jeff Stringham provided an examples of affordable housing loans directly extended by the bank in Davis County that was not picked up in the sample. One loan was to construct a lower price range tri-plex made in the above described moderate income area, and another was for an acquisition loan for an affordable older home near the bank's office, also located in a moderate tract. These loans were generated organically through direct contact with the bank and likely more indicative of the bank's lending patterns outside of broker relationships.

COMMUNITY DEVELOPMENT ACTIVITY

To further support the community needs of the bank's assessment area, the bank and an affiliate, extended \$2,050,000 in community development loans during the evaluation period. The proceeds of the loans were used to develop affordable housing, and to revitalize and/or stabilize a low- or moderate-income geography. Also, the bank's CRA officer has provided several hours of qualified Community Development Service to non-profit agencies within the bank's community.

The following details the bank's community development activities:

Community Development Lending

COMMUNITY DEVELOPMENT LOANS

| Entity | Number | Loan Amount |
|---|----------|------------------|
| Salt Lake City Corp – Broadway Park | 2 | 1,800,000 |
| Salt Lake City Corp – Housing and Neighborhood Dev. | 1 | 250,000 |
| Total Community Development Loans | 3 | 2,050,000 |

SLC Corp. Broadway Park – The bank extended a \$600,000 loan and an affiliate of the bank, Kings Dominion, extended \$1,200,000 to help purchase an existing commercial office building located in a moderate census tract of the central business district of Salt Lake City, and within the boundaries of a designated Redevelopment Zone. The building is being converted to a mixed-use, mid-rise project with 64 residential condominiums, retail space. Eighteen of the units are in the range of \$99,000 to \$104,000.

SLC Corp. Housing and Neighborhood Development – The bank extended a \$250,000 loan to fund residential loans made by the Salt Lake Housing and Neighborhood Development Division. The funds are used to provide mortgage loans extended to low and moderate-income individuals to acquire and/or rehabilitate affordable single family units in selected areas of the city.

Community Development Services

CRA Officer Jeff Stringham is active in the following community development service:

Salt Lake Neighborhood Housing Services – former Director (2002 – 2004), and current member of the audit committee (2003 – Present). Mr. Stringham provided approximately 50 hours in his committee member capacity during 2005.

RESPONSE TO COMPLAINTS

PAB has not received any complaints relating to its CRA performance since beginning operations.

COMPLIANCE WITH ANTI-DISCRIMINATION LAWS AND REGULATIONS

Substantive violations were identified with regard to the provisions of antidiscrimination legislation but did not adversely impact the CRA rating of this institution.